84-907

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No. _____

IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1984

FRED LAVERY PORSCHE AUDI CO.,
WOOD MOTORS, INC.,
VOLKSWAGENWERK, A.G., and
AUDI NSU AUTO UNION, A.G.,

Petitioners,

v.

ROBERT W. KEARNS,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PETITION FOR CERTIORARI

James H. Marsh, Jr.

Lalos, Leeds, Keegan, Lett,
Marsh, Bentzen & Kaye
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Attorneys for Petitioners

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QUESTIONS PRESENTED

1. Whether petitioners/defendants improperly were denied their fundamental right to counsel of their choice when their counsel was disqualified prior to trial by the District Court.

2. Whether as a matter of law a fiduciary relationship can be created between a lawyer and a prospective client when the prospective client learns during his first contact with the lawyer that the lawyer represents an adverse party.

PARTIES TO THE PROCEEDING

The following is a listing of all of the parent companies, subsidiaries (except wholly owned subsidiaries) and affiliates of each of the petitioners:

Fred Lavery Porsche Audi Company

None

Wood Motors, Inc.

None

Volkswagenwerke, A.G.

Audi NSU Auto Union, A.G., is a wholly-owned subsidiary.

Audi NSU Auto Union, A.G.

None

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IN THE
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Petitioners,

v.

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Respondent.

PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

The petitioners, FRED LAVERY PORSCHE AUDI CO., WOOD MOTORS, INC., VOLKSWAGENWERK, A.G., and AUDI NSU AUTO UNION, A.G., petition for a writ of certioriari to review the judgment of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The opinion of the United States Court of Appeals for the Federal Circuit, not yet reported, is Appendix A hereto. The opinion of the United States District Court for the Eastern District of Michigan is Appendix B hereto.

JURISDICTION

Petitioners seek review of the judgment entered by the United States Court of Appeals for the Federal Circuit on October 11, 1984. Petitioners did not seek a rehearing in the Court of Appeals and have not sought any extension of time within which to petition for certioriari.

The statutory provision believed by Petitioners to confer on this Court jurisdiction to review the judgment in question by writ of certiorari is 28 U.S.C. §1254, which provides, in pertinent part, as follows:

> "Cases in the courts of appeal may be reviewed by the Supreme Court by the following methods:

"(1) By writ of certiorari granted upon the petition of any party to any civil or criminal case, before or after rendition of judgment or decree;"

STATEMENT OF THE CASE

This is an interlocutory appeal from an Order by the District Court disqualifying Peter N. Lalos and the law firm of Lalos, Leeds, Keegan, Lett & Marsh (now Lalos, Leeds, Keegan, Lett, Marsh, Bentzen & Kaye)[collectively "the Lalos firm"] from representing petitioners (defendants below) Fred Lavery Porsche Audi Company, Wood Motors, Inc., Volkswagenwerke, A.G., and Audi NSU Auto Union, A.G. (collectively "Audi"). The disqualification was affirmed by the United States Court of Appeals for the Federal Circuit.

The underlying action is an action for patent infringement by plaintiff Robert W. Kearns ("Kearns") under the patent laws of the United States. Kearns alleges infringement of five patents relating to intermittent wind-

shield wiper operation. The United States District Court has jurisdiction over the case by virtue of 28 U.S.C. §1338(a). 1/ The United States Court of Appeals had jurisdiction to hear the interlocutory appeal by virtue of 28 U.S.C. 1295(a)(1). 2/ Panduit Corp. v. All States Plastic Mfg. Co., Inc., United States Court of Appeals for the Federal Circuit No. 84-569, decided September 25, 1984, slip op. pp. 11-14.

1/ §1338(a): "The District Courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents...."

2/ §1295(a)(1): "The United States Court of Appeals for the Federal Circuit shall have exclusive jurisdiction --

cont'd.

Kearns filed his complaint against Audi on March 2, 1982. Approximately two months later, Lalos entered his appearance on Audi's behalf.

In August, 1983, Kearns filed a motion to disqualify the Lalos firm from further representing Audi in this litigation. As grounds for this motion, Kearns asserted that he had in March, 1981, consulted Lalos for the purpose of obtaining Lalos' representation in related patent infringement suits by Kearns against Ford Motor Company, Daimler-Benz, Porsche, SWF, and petitioner Wood Motors, Inc. (as a Daimler-Benz dealer).

The District Court on October 7, 1983, heard testimony from Kearns and Lalos. It also considered affidavits from Kearns, his son, and his former attorney in the Ford

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footnote cont'd.

> (1) of an appeal from a final decision of a district court of the United States,... if the jurisdiction of that court was based in whole or in part, on section 1338 of this title...."

litigation, on the one hand, and Lalos and two other attorneys from the Lalos firm, on the other hand.

The District Court found that at the first meeting between Kearns and Lalos, on March 13, 1981, Kearns told Lalos that Audi was a potential defendant in a patent suit which could be brought on the Kearns patents (a notice of infringement already had been sent to Audi). Lalos in turn advised Kearns that he represented Audi on certain patent matters.

The District Court further found that, although Kearns and Lalos recognized their adversary relationship, Lalos advised Kearns that he might be able to represent him in the Ford litigation if there could be a satisfactory settlement of the potential Audi case. During the month following the initial meeting, Kearns and Lalos discussed Lalos' possible representation of Kearns. They discussed

the facts of the case. Lalos also spoke with Kearns' former attorney in the Ford litigation. Kearns delivered to Lalos documents in the Ford case that he had obtained from his former lawyer. The District Court found that Lalos had obtained confidential information concerning the Ford case and thereupon concluded that a lawyer-client relationship, and hence a fiduciary relationship, existed between Lalos and Kearns from March 13, 1981, through April 8, 1981, when Lalos told Kearns that he could not represent him in the Ford litigation. As a result, Lalos and his firm were disqualified from further representing petitioners in the instant litigation.

REASONS WHY THE WRIT SHOULD BE GRANTED

The District Court improperly denied Petitioners their fundamental right to counsel of their choice because, as a matter of law, there was no fiduciary relationship, and hence no attorney client relationship, between Kearns and Lalos.

There really is only one fundamental issue requiring consideration by this Court: whether, on the facts of this case 3/, the District Court erred as a matter of law in disqualifying Lalos from further representing petitioners. Petitioners submit that the District Court did so err because the court should have found as a matter of law that no confidential relationship existed, or ever could exist, between Kearns and Lalos.

3/ Kearns and Lalos in their affidavits and testimony before the District Court presented substantially different versions of the nature of their discussions. About the only important fact as to which they agreed is that Kearns knew at the beginning of their first meeting that Lalos represented Audi, to whom Kearns previously had sent a notice of infringement. For purposes of this appeal, Petitioners assume that the facts are as they were found by the District Court.

The key fact in this case is that at the very beginning of the first meeting between Kearns and Lalos, Kearns knew that Lalos represented Audi, to whom Kearns had sent a notice of infringement concerning the windshield wiper patents which were in issue in the Ford litigation, the litigation as to which Kearns sought Lalos' representation. See fn.3 supra. There is no disagreement as to this fact. See the District Court Opinion Disqualifying Counsel, Appendix ("App.") A-3 and the opinion of the Court of Appeals, App. B-4.

Because Kearns knew that Lalos represented Audi, he also knew that any information he gave Lalos concerning the Ford litigation could not be given in trust or confidence. Kearns made a deliberate, intelligent decision to continue to talk to Lalos both at the initial meeting and thereafter, and to provide Lalos access to certain documents concerning the Ford litigation. By continuing to deal

with Lalos following Lalos' disclosure of his Audi representation, Kearns clearly foreclosed the possibility that he established a fiduciary, or attorney-client, relationship with Lalos.

It appears that this Court has not addressed the question of attorney disqualification in civil cases since Straw v. Bill, 95 U.S. 10, 24 L.Ed. 333 (1877). The decision in that case which permitted an attorney to appear both specially on behalf of a company against one creditor and on behalf of the trustee for other creditors of the company, has no applicability to the instant controversy. Thus, Petitioners submit that this controversy presents a matter of first impression for this Court.

There has been a substantial and rapid growth of attorney disqualification cases in recent years. In almost all of those cases, including those decisions relied upon by the District Court in ordering Lalos' disqualifi-

cation, the party seeking disqualification had justifiable reason to believe that information being imparted to its former attorney or prospective attorney was being given, and would be retained, in confidence. Thus, a fiduciary relationship was created between the attorney and former, or former prospective, client. See, e.g., Westinghouse Electric Corp. v. Kerr-McGee Corporation, 580 F.2d 1311 (7th Cir. 1978); Trone v. Smith, 621 F.2d 994 (9th Cir. 1980); Melamed v. ITT Continental Baking Co., 592 F.2d 290 (6th Cir. 1979).

These cases clearly are inapposite to the present controversy, as both Kearns and Lalos knew as soon as they began their discussions, and throughout those discussions, that Lalos had a preexisting fiduciary duty to Audi, a party adverse to Kearns.

Petitioners submit that the District Court and Court of Appeals should have been guided by the decision of the United States Court of Appeals for the Second Circuit in

Allegaert v. Perot, 565 F.2d 246 (2d Cir. 1977). In that decision, the Second Circuit held that a party who discloses "confidential information" to an attorney known to represent an adverse party cannot later claim that there was a fiduciary relationship between that party and the attorney. That same rule should apply to the present case. Kearns knew when he disclosed "confidential information" to Lalos that Lalos represented an adversary. There was no basis for prohibiting Lalos from continuing to represent Audi once Audi was sued by Kearns.

CONCLUSION

This case presents an important issue of first impression for this Court. Petitioners have been denied wrongfully one of their fundamental rights -- the right to counsel of their choice -- and will be substantialily prejudiced in the underlying litigation unless this Court grants this petition for a writ of

certiorari and reverses the Order disqualifying Lalos as Counsel for Petitioners.

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Attorneys for Petitioners

APPENDIX "A"

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

ROBERT W. KEARNS,

Plaintiff,

v.

CIVIL ACTION
No: 82-70749

FRED LAVERY PORSCHE AUDI CO.,
WOOD MOTORS, INC.,
VOLVSWAGENWERK A.G.,
and AUDI NSU AUTO UNION, A.G.,

Defendants.
_____/

OPINION DISQUALIFYING COUNSEL

By Judge Horace W. Gilmore

McDOUGALL, HERSH & SCOTT
By: KEITH V. ROCKEY, ESQ.
135 South LaSalle Street
Chicago, Illinois 60603

On behalf of plaintiff

LALOS, LEEDS, KEEGAN, LETT & MARSH
By: JAMES H. MARSH, JR., ESQ.
1200 Seventeenth Street, N.W.
Washington, D.C. 20036

October 20, 1983

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION

ROBERT W. KEARNS,
Plaintiff,

v.

CIVIL ACTION
No: 82-70749

FRED LAVERY PORSCHE AUDI CO.,
WOOD MOTORS, INC.,
VOLKSWAGENWERK A.G.,
and AUDI NSU AUTO UNION, A.G.,

Defendants.
_____/

OPINION DISQUALIFYING COUNSEL

This matter is before the Court upon a motion by plaintiff to disqualify Peter Lalos and his law firm, Lalos, Leeds, Keegan, Lett & Marsh, from representing defendants in this patent suit.

I

Prior to the institution of this action, plaintiff Kearns had filed suits against various automobile manufacturers for infringement of his U.S. patents on intermittent windshield wipers. In one case, Ford Motor

Company was a defendant, and Richard Aitken of Washington, D.C. represented plaintiff.

Aitken was forced to withdraw from representing Kearns in December of 1980 for reasons not relevant to this matter. Thereafter, in March of 1981, Kearns approached Lalos to ascertain whether he would represent him in litigation against Ford, succeeding Aitken.

At their first meeting, on March 13, Kearns told Lalos that Audi was a potential defendant in another patent suit on the same patents, and Lalos advised Kearns that he had, and did, represent Audi on patent matters, although he had not yet been retained to represent Audi in this case.

After that, the stories of the parties differ greatly, and one full afternoon was dedicated by the Court to the testimony of Kearns and Lalos.

Kearns testified that he had long discussions with Lalos about the Ford case, seeking

to retain Lalos to represent him. The Court finds as a matter of fact that Lalos said to Kearns that he might be able to represent him in the pending litigation against Ford, if there could be a satisfactory settlement of the Audi case.1/ The court further finds that Kearns believed that Lalos seriously considered representing him, and that, from the period of approximately March 13 until April 8, 1981, Kearns and Lalos discussed Lalos' representation of Kearns. In these discussions, they went into the facts of the case, both public and confidential, in great detail.

Several days after the initial conference, Kearns delivered to Lalos all of the documents in the Ford case that he had obtained from Aitken. These documents contained, among other things, handwritten notes

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1/ In fact, Lalos stated the same thing in his pre-hearing affidavit.

of Aitken, and confidential and public records.

Lalos called Aitken thereafter and talked with him about the case. He testified that he talked to him only about public matters, but Aitken submitted an affidavit stating: "I believe I discussed various issues, and Kearns' position in respect to those issues, in some depth with Mr. Lalos because of Mr. Kearns' interest in securing Mr. Lalos' representation." The Court finds that matters related to the Ford litigation, other than those of public record, were discussed between Lalos and Aitken.

Timothy Kearns, Kearns' son, filed an affidavit in which he said: "I accompanied my father on four of his visits to Mr. Lalos. I heard Mr. Lalos tell my father that he would consider representing my father in that litigation. As a result, my father conducted in my presence, detailed discussions with Mr. Lalos regarding the merits of the litiga-

tions."

Included in the discussions was a request by Kearns that Lalos undertake the representation on a contingency basis. Lalos said this was a matter that would have to be taken up with his partners. The Court finds that Lalos had such discussions with his partners, and they turned down the contingency arrangement. This is borne out by the handwritten notes of Kearns, Exhibit 1, dated April 8, 1981, which said, on the bottom of Page 1: "Honest differences of opinion - merits - if parties can't have consensus. Negative about contingency." It is also borne out by Exhibit 2, Kearns' memo to his own negotiation file, dated April 13, 1981, which said: "Peter Lalos declined to take the case on contingency. Partners said the case was 'not a sure thing' because of 'on sale' & 'fraud' allegations."

These negotiations for representation broke down in the second week of April, 1981,

after Lalos decided he could not take the case on a contigency basis. The parties then started to negotiate a settlement of the Audi matter. Suit had not yet been started, and was not started for approximately a year, but a notice of infringement had been sent by Kearns to Audi in January of 1981, and Audi authorized Lalos to negotiate with Kearns to settle the matter.

At that time, Lalos knew that Kearns had an attorney, one Bill Hall, who had undertaken the representation of Kearns against Ford on April 9, 1981, after Lalos had turned down Kearns.

Approximately a month to two months later, Keith Rockey, who now represents Kearns, came into the case. Lalos testified that some time in May or June he learned that Rockey was Kearns' attorney. Yet, throughout all of this time after the breakdown of the negotiations for the retention of Lalos as counsel, Lalos negotiated with Kearns alone

for the settlement of the Audi matter, knowing full well that Kearns had counsel. Lalos testified he saw no problem in that, because Hall and Rockey were going to represent Kearns in the Ford matter, and he felt then it was all right for him to negotiate on the Audi matter.

The fact remains, however, that the Audi and the Ford cases were so closely tied together that it is difficult to separate them. Both involved suits by Kearns for infringement of the same patents for intermittent windshield wipers.

II

There is no question that between March 13 and April 8, 1981 a lawyer-client relationship existed between Lalos and Kearns. Even though representation was not eventually undertaken by Lalos, Kearns was a client within the meaning of the attorney-client privilege.

The attorney-client privilege attaches, and one is considered a client, whenever one consults a lawyer with a view to obtaining professional legal services. Rule 502(a)(1) of the Uniform Rules of Evidence, 1974 Edition, accurately defines a client as a "...person... who consults a lawyer with a view to obtaining professional legal services from him."

McCormick on Evidence, 2d Ed. (West Publishing Co., 1972) § 88, p. 179 states, in discussing the professional relationship and the privilege: "Communications in the course of preliminary discussions with a view to employing the lawyer are privileged through the employment is in the upshot not accepted."

In Westinghouse Electric Corp. v. Kerr-McGee, 580 F.2d 1311 (7th Cir. 1978), the court stated:

> The fiduciary relationship existing between lawyer and client extends to preliminary consultation by a prospective client with a view to retention of the lawyer although

> actual employment does not result.... The professional relationship for purposes of the privilege for attorney-client communication hinges upon the client's belief that he is consulting a lawyer in that capacity and his manifested intention to seek professional legal advice.

Id. at 1319.

It is therefore clear that the attorney-client privilege attached at the time Kearns consulted Lalos about undertaking the case, and continued throughout their discussions until Lalos decided in the second week of April, 1981 that he would not take the case. Lalos therefore was in a fiduciary relationship with Dr. Kearns throughout these discussions.

Recognizing that a fiduciary relationship existed, the Court must examine the consequences of that relationship upon the subsequent representation by Lalos and his law firm of the defendants in this proceeding.

A most significant case on the subject is Trone v. Smith, 621 F.2d 994 (9th Cir. 1980).

The Court stated there:

> "Perhaps the most important facet of the professional relationship served by this rule of disqualification is the preservation of secrets and confidences communicated to the lawyer by the client. If there is a reasonable probability that confidences were disclosed which could be used against the client in later, adverse representation, a substantial relation between the two cases is presumed....
>
> Both the lawyer and the client should expect that the lawyer will use every skill, expend every energy, and tap every legitimate resource in the exercise of independent professional judgment on behalf of the client and in undertaking representation on the client's behalf. That professional commitment is not furthered, but endangered, if the possibility exists that the lawyer will change sides later in a substantially related matter....
>
> . . .
>
> As we have stated, the underlying concern is the possibility, or appearance of the possibility, that the attorney may have received confidential information during the prior representation that would be relevant to the subsequent matter in which disqualification is sought. The test does not require the former client to show that actual confidences were disclosed. That inquiry would be improper as requiring the very disclosure the rule is intended

to protect....

> Once the attorney is found to be disqualified, both the attorney and the attorney's firm are disqualified from suing the former client....

Id. at 998, 999.

In General Electric v. Valeron & Co., 608 F.2d 265 (6th Cir. 1979) the court held that a showing of a substantial relationship between an attorney's prior work for a party and the instant litigation and the receipt of confidential information is sufficient for disqualification. "...Proof of such a substantial relation is generally sufficient to require disqualification..." Id. at 267.

In another Sixth Circuit case, Melamed v. ITT Continental Baking Co., 592 F.2d 290 (6th Cir. 1979), the court said:

> It has been repeatedly held that an attorney may not represent a client in litigation against a former client if the subject matter of the litigation is "substantially related" to work he or she did for the former client....

Id. at 292.

And in Schloetter v. Railoc of Indiana, Inc., 546 F.2d 706 (7th Cir. 1979), it was held:

> The basic policies underlying any judicially-compelled withdrawal of counsel because of a potential conflict of interest can be found in Canons 4 and 9 of the ABA Code of Professional Responsibility....Read together, the two cannons indicate that an attorney may be required to withdraw from a case where there exists even an appearance of a conflict of interest.
>
> . . .
>
> We begin with the well-settled rule that where an attorney represents a party in a matter in which the adverse party is that attorney's former client, the attorney will be disqualified if the subject matter of the two representations are "substantially related." The court, in these circumstances, makes no inquiry into whether confidential information relating to the matter involved in the subsequent representation did in fact pass to the attorney during the course of the former representation; his possession of such information will be presumed....

Id. at 709, 710.

In Westinghouse Electric Corporation v. Gulf Oil Corporation, 588 F.2d 221 (5th Cir. 1978), the court stated:

> The substantial relationship rule embodies the substance of Canons 4 and 9 of the A.B.A. Code of Professional Responsibility.... As a result it is clear that the determination of whether there is a substantial relationship turns on the possibility, or appearance thereof, that confidential information might have been given to the attorney in relation to the subsequent matter in which disqualification is sought. The rule thus does not necessarily involve any inquiry into the imponderables involved in the degree of relationship between the two matters but instead involves a realistic appraisal of the possibility that confidences had been disclosed in the one matter which will be harmful to the client in the other. The effect of the Canons is necessarily to restrict the inquiry to the possibility of disclosure;...
>
> The evidence need only establish the scope of the legal representation and not the actual receipt of the allegedly relevant confidential information. Then only where it is clearly discernible, "that the issues involved in a current case do not relate to matters in which the attorney formerly represented the adverse party will the attorney's present representation be treated as measuring up to the standard of legal ethics."... (emphasis added).

Id. at 224.

It therefore becomes clear that Lalos is disqualified from further representation of the defendants in this case because he received confidential information concerning a case which is substantially related to the instant case. For him to continue his representation would involve a breach of his fiduciary obligations and would undermine the integrity of the attorney-client privilege and Canons 4, 5 and 9 of the Code of Professional Responsibility.

Additionally, Lalos was guilty of a breach of professional standards by continuing to negotiate with Kearns after he was well aware that Kerarns was represented by other lawyers. The fact that he was negotiating on the Audi matter rather than the Ford matter is irrelevant. Disciplinary Rule 7-104 of the Code of Professional Responsibility clearly proscribes negotiations by any lawyer with another person who is represented by counsel without first obtaining the permission of that

person's lawyer.

Moreover, permitting Lalos to continue as counsel for the defendant in the instant case would violate Canon 9 of the Code of Professional Responsibility, which states: "A lawyer should avoid even the appearence of professional impropriety." Ethical Consideration 9-6 mandates that every lawyer "... conduct himself so as to reflect credit upon the legal profession and to inspire the confidence, respect and trust of his clients and of the public; and to strive to avoid not only professional impropriety but also the appearance of impropriety."

Having disqualified Lalos, the Court must also disqualify the law firm of Lalos, Leeds, Keegan, Lett & Marsh. Confidences and secrets possessed by an attorney are presumptively possessed by other members of his firm. See Trone v. Smith, supra, at 999; Westinghouse Electric Corporation v. Kerr-McGee Corporation, supra, at 1318; Schloetter v.

Railoc of Indiana Inc., supra, at 710; and DR 5-105(D) of the Code of Professional Responsibility.2/

Disqualification of counsel in this case does not unduly prejudice defendant, as defendant has ample time and resources to retain new counsel and prepare for trial, which is scheduled for late spring of 1984. Additional time can be granted for good cause shown.

Redd v. Shell Oil Company, 518 F.2d 311, at 315 (10th Cir. 1975), cited by defendant, is distinguishable because the motion for disqualification in that case was brought on the Friday preceeding a Monday trial date. Trust Corporation of Montana v. Piper Aircraft Corporation, 701 F.2d 85, at 86-87 (9th Cir. 1983), is also distinguishable because the

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2/ The ABA Code of Professional Responsibility has been adapted as the Code of Professional Responsibility for lawyers practicing in the United States District Court for the Eastern District of Michigan.

motion for disqualification in that case was brought just 33 days prior to trial.

Finally, although plaintiff waited 18 months between the time the instant complaint was filed in March, 1982 and the time the motion for disqualification was filed in August, 1983, counsel for plaintiff did correspond with defense counsel seeking an explanation of the confidential information Lalos may have obtained. Further, the disqualification motion was brought relatively promptly after settlement negotiations broke down.

Counsel shall present an order embodying the findings of this opinion disqualifying Lalos and the law firm of Lalos, Leeds, Keegan, Lett & Marsh. The order shall provide that defendants obtain other counsel within 90 days of the date of the order.

HORRACE W. GILMORE
United States
District Judge

DATED: October 20, 1983

APPENDIX "B"

UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

ROBERT W. KEARNS,	)	
	)	
Appellee,	)	
	)	
v.	)	APPEAL NO. 84-655
	)	
FRED LAVERY PORSCHE AUDI COMPANY, ET AL.	)	
	)	
	)	
Appellants.	)	

DECIDED: October 11, 1984

Before RICH, DAVIS and BALDWIN, Circuit Judges.

DAVIS, Circuit Judge.

The only issue is whether the attorney for appellants (defendants below) was properly disqualified by the District Court in this patent infringement suit. This is one of those cases in which the result turns on the assessment of the individual facts. We believe that on the record before it the District Court's factual findings were not clearly erroneous. On those findings it

necessarily follows that the decision of the District Court that the attorney must be disqualified was not an abuse of discretion. We therefore affirm.1/

I

In March 1982 appellee Robert Kearns brought this patent infringement suit in the United States District for the Eastern District of Michigan against Audi NSU Auto Union, A.G. and Volkswagenwerk, A.G. (manufacturers respectively of Audi and Volkswagen automobiles), Fred Lavery Porsche Audi Co. and Wood Motors Inc. (Michigan sellers respectively of Audi and Volkswagen autos) of five United States patents directed to automobile intermittent windshield wiper systems.

1/ There is no question that this court has jurisdiction of this appeal. See Panduit Corp. v. All States Plastic Mfg. Co., Inc., No. 84-569, decided Sept. 25, 1984, slip op. pp. 11-14; Ah Ju Steel Co., Ltd. v. Armco, Inc., 680 F.2d 751, 752-53 (CCPA 1982).

In August 1983 Kearns moved to disqualify Audi's attorney, Peter N. Lalos, and his law firm from representing Audi in this litigation. The ground asserted was that Kearns had earlier consulted Lalos for the purpose of obtaining Lalos' representation of Kearns in related patent infringement suits previously brought (in 1978) by Kearns on the same patents against Ford Motor Co. and Wood Motors (as a Ford dealer). On that motion, the District Court received affidavits and heard the oral testimony of Messrs. Kearns and Lalos. The court granted the motion, made findings and issued an opinion, and then entered an order disqualifying Lalos and his firm. This appeal is taken from that order.

The District Court found that Kearns, the inventor and owner of the patents, had previously sued other automobile manufacturers for infringement of those patents, including Ford. Kearns' then attorney in that case was forced to withdraw in December 1980, and

Kearns had to obtain other counsel. In March 1981 he approached Lalos to ascertain whether he would represent Kearns in the litigation against Ford. At their first meeting, on March 13, Kearns told Lalos that Audi was a potential defendant in another patent suit which could be brought on the same patents (a notice of infringement had already been sent to Audi), and Lalos advised Kearns that he had, and did, represent Audi on patent matters, although he had not yet been retained to represent Audi on the matter now before us. Up to that point, both sides are agreed.

After that point, the testimony of Kearns and Lalos, which was taken before the court, diverged drastically. On the basis of the oral testimony, the various affidavits filed, and documentary evidence, the court found the following as the facts: Lalos said to Kearns that he might be able to represent him in the pending litigation against Ford if there could be a satisfactory settlement of the potential

Audi case. "Kearns believed that Lalos seriously considered representing him, and . . . for the period of approximately March 13 [the date of the first meeting] until April 8, 1981, Kearns and Lalos discussed Lalos' representation of Kearns. In these discussions, they went into the facts of the case, both public and confidential, in great detail". Some time after the initial conference on march 13 (and before April 8th), Kearns delivered to Lalos all the documents in the Ford case that he had obtained from his prior lawyer. These documents contained, among other things, "handwritten notes of [the prior lawyer], and confidential and public records". Lalos then called the prior attorney and talked about the case. Lalos testified that he talked only about public matters, but the prior attorney's affidavit stated: "I believe I discussed various issues, and Kearns' position in respect to those issues, in some depth with Mr. Lalos because of Mr. Kearns'

interest in securing Mr. Lalos' representation". The court specifically found that "matters related to the Ford litigation, other than those of public records, were discussed between Lalos and [the prior attorney]".

Kearns' son said in an affidavit quoted by the District Court: "I accompained my father on four of his visits to Mr. Lalos. I heard Mr. Lalos tell my father that he would consider representing my father in that litigation. As a result, my father conducted, in my presence, detailed discussions with Mr. Lalos regarding the merits of the litigation".

Kearns asked Lalos to undertake the representation on a contingency basis, and Lalos said that would have to be taken up with his partners. That was done and the partners "turned down a contingency arrangement". The court found that these facts were borne out by two contemporaneous handwritten documents by Kearns (quoted by the court) dated April 8 and April 13.

The court then found (1) that the representation negotiations broke down (in the second week of April 1981) after Lalos decided he would not take the case on a contingency basis, and (2) that the parties at that time started to negotiate a settlement of the Audi matter (although suit against Audi had not yet been begun, a notice of infringement had been sent); these negotiations ultimately broken down (but were resumed after suit was brought in March 1982).

The District court concluded that "there is no question that between March 13, and April 8, 1981 a lawyer-client relationship existed between Lalos and Kearns" in the sense that that relationship attaches when one consults a lawyer with a view to obtaining professional legal services, and therefore that "a fiduciary relationship existed". The court decided that Lalos was disqualified from further representation of appellee-defendant "because he received confidential information

concerning a case [the Ford case] which is substantially related to the instant case". Lalos' firm was also disqualified.

II

There is no significant dispute between the parties, and the court agrees, as to the controling legal principles.2/ First, the "fiduciary relationship existing between lawyer and client extends to preliminary consultation by a prospective client with a view to retention of the lawyer, although actual employment does not result". Westinghouse Electric Corp. v. Kerr-McGee Corp., 580 F.2d 1311, 1319 (7th Cir. 1978). To the same effect, see McCormick on Evidence, 2d Ed. 1972), §88, p. 179. If such a temporary fiduciary lawyer-client relationship exists, the rule on disqualification is: "If there is a reasonable probability that confidences were disclosed which could be used against the client in later, adverse representation, a substantial relation between the two cases is

presumed". Trone v. Smith, 621 F.2d 994, 998 (9th Cir. 1980). Such a "substantial relationship" requires the attorney's disqualification. General Electric Co. v. Valeron & Co., 608 F.2d 265, 267 (6th Cir. 1979); Melamed v. ITT Continental Baking Co., 592 F.2d 290, 292 (6th Cir. 1979); Westinghouse Electric Corp. v. Gulf Oil Corp., 588 F.2d 221, 224 (5th Cir. 1978); Schloetter v. Railoc of Indiana, Inc., 546 F.2d 706, 709-10 (7th Cir. 1979). And if there is both such a fiduciary lawyer-client relationship [on the part of the challenged lawyer himself] and a substantial relationship between the cases, "it is the possibility of the breach of confidence, not the fact of the breach, that triggers disqualification". Trone v. Smith, supra, 621 F.2d at 999. The cases also show

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2/ All the extant court decisions (including those in the 6th Circuit) reflect these principles.

that this disqualification rule prima facie extends to disqualification of the lawyer's firm as well. See also Rule DR 5-105(D) of the American Bar Association Code of Professional Responsibility.3/

III

The controversy in this case is not over these legal rules but over the factual question of whether there ever was, even preliminarily, such a fiduciary relationship between Kearns and Lalos. Appellants' position is that there was not, and could not reasonably have been, any such lawyer-client fiduciary relationship because Kearns knew almost from the first moment that Lalos represented Audi which company Kearns had already accused of infringing his patents, and Kearns could not have believed that Lalos would even consider representing Kearns. Appellants argue that Kearns in an educated, experienced and sophisticated inventor, with extensive business knowledge and much contact

with lawyers and legal matters. When he was immediately informed (at his first interview with Lalos) that the attorney represented Audi in patent matters, Kearns must have known -- it is said -- that any relationship between him and Lalos could be nothing but purely adversarial, and thus there could not have been any thought on Lalos' part of undertaking to represent Kearns in a patent matter (i.e. the Ford case) that was so intimately connected with the threatened patent litigation against his existing client, Audi. Moreover, we are told that Kearns, being the knowledgeable type of person he was, could not have believed that Lalos would need to clear with Audi Lalos' representation of Kearns against Ford -- or that such permission was needed or that it was ever sought or obtained (there is no direct evidence that Audi ever gave such

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3/ This Code of Professional Responsibility has been adopted for lawyers practicing in the United States District Court for the Eastern District of Michigan.

permission or was asked to give it). Instead, appellants say that all the relationships and negotiations between Kearns and Lalos solely involved the normal adversarial relationship having to do with the possible settlement of Kearns' potential case against Audi -- all the conferences and negotiations from March 13th onward are said to have dealt only with that possibility.

There was oral testimony from Lalos denying any thought or consideration of representing Kearns at that time, and tending to support (with some documentation) the claim that only settlement negotiations with undertaken. The difficulty, however, is that the district judge expressly found otherwise, and we cannot say on this record that his contrary findings were clearly erroneous. (That is, of course, the standard, and we cannot decide the facts de novo.) There is, first of all, the detailed oral testimony of Kearns, testimony heard and evaluated, and credited, by the

District Court. Kearns said, for instance, that, when Lalos first said that he represented Audi, Kearns was ready to leave but did not because Lalos continued that he was sure he could get Audi's permission (but couldn't get it immediately because of the six hours difference in time between Germany and the United States). Kearns said: "I went along with that. I believed that. I mean, then we began to discuss in more detail". There were further indications of the joint consideration of Lalos' representing Kearns. Kearns testified that they discussed what Kearns had paid his prior lawyer and what he would pay Lalos; Kearns asked that Lalos take the case on contingency and Lalos indicated he would consider doing that. There is the explicit affidavit of Kearns' son quoted supra in Part I. There were Kearns' handwritten notes about the Lalos' firms refusal to take the case on contingency; these include notations such as "Partners said the case was 'not a sure thing'

because of 'on sale' & 'fraud' allegations".4/ There is no doubt, too, that a large volume of Kearns' documents were made available to Lalos, and that Lalos talked to Kearns' former attorney whose affidavit states: "I believe I discussed various issues, and Kearns position in respect to those issues, in some depth with Mr. Lalos because of Mr. Kearns' interest in securing Mr. Lalos' representation" (emphasis added). At the hearing before the District Court, Lalos admitted that he discussed somewhat with the prior attorney the allegations that the Kearns patent was invalid of unenforceable because of an "on sale" bar or of fraud on the Patent and Trademark Office. Lalos also testified that he told Kearns: "Well, I'd like to see something more. I'd like to see some of the pleadings in the case, and also, perhaps I'd like to talk to [the prior attorney] to get an overview of what this case is all about". There are also Kearns' notes indicating that Lalos and his

firm considered taking the case on contingency, and then decided not to. See note 4, supra.

All this, and more, add up to adequate support for the trial judge's findings. We cannot say that they were clearly erroneous, i.e., that the District Court had to disbelieve Kearns and had to conclude that Kearns understood, all along, that Lalos was an adversary attorney who could not possibly undertake to represents Kearns against Ford because Lalos represented Audi. If Kearns were as knowledgeable and sophisticated in these matters as appellants assert, there is grave doubt that he would have handed over documentation he did, would have permitted

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4/ The record before us contains reproductions of Kearns' handwritten notes and his typed "Memo to Negotiation File" (April 13, 1981). These support the District Court's findings that Kearns attempted to have Lalos represent him and that Lalos and his firm looked into the matter but declined to take the case on contingency.

(and apparently encouraged) his previous lawyer to talk to Lalos as much as that Lawyer did, would have himself gone into (with Lalos) the merits of his patent cases and possible defenses against an infringement claim -- unless he wanted Lalos to represent him. Appellants insist nevertheless that a fully-knowledgeable Kearns made "a deliberate, intelligent decision to continue to talk to Lalos", but they give no reason why even a fully knowledgeable inventor would do the things Kearns did in this instance, if he believed that Lalos continued to represent the potential adversary Audi and would not consider representing Kearns. Even in an effort to settle a not-yet-pending case, it is very doubtful that any inventor would have gone so far in revealing his innermost position as the District Court found Kearns to have done.

In a word, it is too much to ask us on this record to overturn as clearly erroneous the District court's specific factual findings

that Kearns wanted Lalos to represent him against Ford and believe that Audi would be no barrier (because there would be permission by, or a settlment with, Audi).5/

Finally, appellants seem to suggest that the disqualification motion was made too tardily. This action was begun in March 1982 but the disqualification motion was not formally made until August 1983 (apparently the issue was raised informally in May 1983).

5/ Appellants cite Allegaert v. Perot, 565 F.2d 246 (2d Cir. 1977), for the proposition that, for disqualification to follow, the attorney must be in a position where he could have received information which his would-be client might reasonably have assumed the attorney would withhold from his present client; that could not be true here, it is argued, because Kearns knew that Lalos represented Audi. Three factors plainly distinguish that case: (1) the facts are drastically different and the Allegaert opinion described those facts as "peculiar"; (2) the Second Circuit affirmed a District Court holding of non-disqualification while here we are asked to reverse a District Court holding; and (3) the Second Circuit stressed the great reliance to be placed on the trial court's exercise of its discretion in disqualification matters.

The District Court did not view this lapse of time as an obstacle because (a) "counsel for plaintiff [Kearns] did correspond with defense counsel [Lalos] seeking an explanation of the confidential information Lalos may have obtained", 6/ and (b) negotiations looking to settlement of this actual litigation began (in November 1982) and continued for several months, and "the disqualification motion was brought relatively promptly after settlement negotiations broke down". These conclusions are reasonable and obviously do not constitute an abuse of the District Court's discretion.7/

For these reasons the District Court's disqualification of Lalos and his firm must be upheld.

AFFIRMED

6/ No such explanation was ever obtained.

7/ The District Court (in its opinion of October 1983) said that "Disqualification of counsel in this case does not unduly prejudice

cont'd.

footnote, cont'd.

defendant [Audi], as defendant has ample time and resources to retain new counsel and prepare for trial, which is scheduled [at that time] for late spring of 1984. Additional time can be granted for good cause shown".

No. 84-907

FILED
DEC 31 1984
ALEXANDER L. STEVAS
CLERK

IN THE

Supreme Court of the United States

OCTOBER TERM, 1984

FRED LAVERY PORSCHE AUDI CO., WOOD MOTORS, INC., VOLKSWAGENWERK, A.G., and AUDI NSU AUTO UNION, A.G.,

Petitioners,

vs.

ROBERT W. KEARNS,

Respondent.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

RESPONDENT'S BRIEF IN OPPOSITION

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RESPONDENT'S RULE 28 STATEMENT

Respondent Robert W. Kearns, being an individual, has no corporate affiliations.

IN THE
SUPREME COURT OF THE UNITED STATES
OCTOBER TERM, 1984

No. 84-907

FRED LAVERY PORSCHE AUDI CO.,
WOOD MOTORS, INC.,
VOLKSWAGENWERK, A.G., and
AUDI NSU AUTO UNION, A.G.,

Petitioners,

vs.

ROBERT W. KEARNS,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

BRIEF FOR RESPONDENT IN OPPOSITION

The petition filed in this case presents no question warranting this Court's attention.

On the contrary, both the District

Court and the Court of Appeals decided the issue of whether petitioners' attorney should be disqualified in accordance with settled authority -- as to which there was no dispute below. The only controversy between the parties in the courts below arose, not from what the law is, but from what the facts were. The District Court decided the facts, after a hearing, adversely to petitioners; those fact findings are the subject of petitioners' complaint here.

Neither this Court nor the Court of Appeals for the Federal Circuit is in the business of making fact findings, and petitioners' arguments to the contrary fly in the face of Rule 52(a) of the Federal Rules of Civil Procedure and countless decisions of this Court (Zenith Radio Corp. v. Hazeltine Research, Inc. (1969), 395 U.S. 100, 123).

In demonstrating that this case is not

one warranting this Court's review, we lead off by a brief statement of the facts since petitioners have stated them neither fully nor fairly.

RESPONDENT'S COUNTERSTATEMENT OF THE CASE

I. Kearns' Consultation With Lalos.

After the lawyer representing him in the Ford litigation concluded that he must withdraw, Kearns began a shopping expedition to find new counsel to represent him in that litigation. In the middle of a Friday afternoon, Kearns arrived in the office of Peter N. Lalos (without an appointment) and commenced a discussion with Lalos respecting his litigation with the automotive industry. To his credit, Lalos advised Kearns that he already represented Audi. But that, the District Court found, did not prevent Lalos from considering representing Kearns.

At this point, the story offered by Kearns and Lalos at the hearing in the District Court differed greatly. For example, Kearns testified that he, after Lalos told him that Lalos represented Audi, started to leave. Kearns remained at Lalos' request, because Lalos told him that Lalos was sure that he could get Audi's permission to represent Kearns in litigation against Ford -- a contention which Lalos has denied.

Even with the sharp conflict in the testimony of the two men, two significant facts were not in dispute:

(a) As a result of his conference with Kearns, Lalos looked into the Ford lawsuit, including Ford's allegations that the subject matter of the patents in suit was "on sale" and that the patents were procurred through "fraud";

(b) To get an overview of the Ford case, Lalos asked Kearns to authorize his former

attorney to discuss the Ford case with him; Lalos called Kearns' former attorney and discussed with him the "on sale" and "fraud" defenses.*

During the hearing in the District Court, Kearns testified that, because he was seeking to hire an attorney on a contingent-fee basis, he went into the case in great detail so that any new attorney would be advised of the strengths and weaknesses of Kearns case against Ford. Kearns, at Lalos' request, brought in documents respecting the case (excluding the correspondence with his attorney); Kearns also contacted his previous attorney, advising him that he had Kearns' permission to discuss "in depth" the case with Lalos as his prospective attorney.

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* Later, when Lalos filed his appearance on Audi's behalf, he pleaded the very "on sale" and "fraud" defenses that he had discussed with Kearns and his former lawyer!

As Lalos told the story:

> "...we had a problem with Audi because we established at the outset that I represented Audi and Mr. Kearns had a notice of infringement in January of 1980; therefore, it was an obvious conflict we had."

Lalos denied that he told Kearns that Audi might be willing to release him to represent Kearns:

> "I do not have to ask Audi whether I want to represent another client. I'm under no obligation to Audi. I may have done it as a courtesy, but I was under no obligation to Audi not to take another case involving another automotive company."

Lalos admitted that he had conferred with Kearns' previous counsel, but assured the District Court that their conversations were restricted to publicly-available material. Lalos also testified that he never looked at the documents Kearns delivered to him to review.

II. The District Court's Decision.

The District Court, following arguments of counsel, issued an opinion from the bench disqualifying Lalos and his firm from further representation of Kearns. (That oral opinion was followed by a written opinion reported at 573 F.Supp. 91.) The District Court found (573 F.Supp. at 92-3):

> "...Lalos said to Kearns that he might be able to represent him in the pending litigation against Ford, if there can be a satisfactory settlement of the case."

Finding that Kearns believed that Lalos considered representing him, the District Court found also that Kearns and Lalos discussed the facts of the case "both public and confidential, in great detail" (573 F.Supp. at 93).

The District Court also found that its view of the facts was corroborated by other

evidence in the record, including contemporaneous notes made by Kearns.

Relying on Trone v. Smith (9 Cir., 1980), 621 F.2d 994, 998-9, the District Court held that the controlling test was whether there is a "possibility" or an "appearance of the possibility" that the attorney may have received confidential information during his prior representation of a client which would be relevant to later representation. Based on that legal standard, as to which there was no dispute, the District Court concluded (573 F.Supp. at 95):

> "...Lalos is disqualified from further representation of the defendants in this case because he received confidential information concerning a case which is substantially related to the instant case."

III. The Decision of the Court of Appeals.

Dissatisfied with the decision of the

District Court, petitioners took their appeal to the United States Court of Appeals for the Federal Circuit. In an opinion handed down in October of 1984 and reported at 745 F.2d 600, the Court of Appeals affirmed.

In characterizing the case, the Federal Circuit wrote (745 F.2d at 601):

> "This is one of those cases in which the result turns on the assessment of the individual facts. We believe that on the record before it the District Court's factual findings were not clearly erroneous."

After reviewing the District Court's opinion and the record support for it, the Court wrote (745 F.2d at 603):

> "There is no significant dispute between the parties, and the Court agrees, as to the controlling legal principles."

The Court went on to state the oft-quoted rule of Westinghouse Electric Corp. v.

Kerr-McGee Corp. (7 Cir., 1978), 508 F.2d 1311, 1319, that:

> "...the fiduciary relationship existing between lawyer and client extends to preliminary consultation by a prospective client with a view to retention of the lawyer, although actual employment does not result."

The Federal Circuit, like the regional courts of appeal before it, recognized that (Trone v. Smith, 621 F.2d at 999):

> "... it is the possibility of the breach of confidence, not the fact of the breach that triggers disqualification."

The Federal Circuit put the issue before it thus (745 F.2d at 603):

> "The controversy in this case is not over these legal rules but over the factual question of whether there ever was, even preliminary, such a fiduciary relationship between Kearns and Lalos."

The Court went on to reject the very

argument that petitioners assert here, namely, that Kearns knew at the outset that, because of Lalos' prior representation of Audi, Kearns could not have believed that Lalos would even consider representing him on that point. The Federal Circuit wrote (745 F.2d at 605):

> "Appellants insist nevertheless that a fully knowledgeable Kearns made 'a deliberate, intelligent decision to continue to talk to Lalos', but they gave no reason why even a fully knowledgeable inventor would do the things Kearns did in this instance, if he believed that Lalos continued to represent the potential adversary Audi and would not consider representing Kearns."

Summing up, the Federal Circuit wrote (745 F.2d at 605):

> "In a word, it is too much to ask us on this record to overturn as clearly erroneous the District Court's specific factual findings that Kearns wanted Lalos to represent him against Ford and believed that Audi would be no barrier...."

ARGUMENT

A. The Petition Here Asks This Court To Perform An Impermissible Function, Namely To Review The Facts.

The petition in this case is fatally defective under the clear mandate of Rule 52 of the Federal Rules of Civil Procedure, providing as it does that findings of fact made by the District Judge "shall not be set aside unless clearly erroneous".

This Court made the point well in Zenith Radio Corp. v. Hazeltine Research Inc. (1969), 395 U.S. 100, 123:

> "In applying the clearly erroneous standard to the findings of a District Court sitting without jury, appellate courts must constantly have in mind that their function is not to decide factual issues de novo."

The Federal Circuit recognized its limited role under Zenith, and refused to reexamine the facts de novo, as petitioners

urged. The Federal Circuit wrote (745 F.2d at 605):

> "All this, and more, add up to adequate support for the trial judge's findings. We cannot say that they were clearly erroneous, i.e., that the District Court had to disbelieve Kearns and had to conclude that Kearns understood, all along, that Lalos was an adversary attorney who could not possibly undertake to represent Kearns against Ford because Lalos represented Audi."

In sum, the petition here raises a pure factual question and should be denied on that basis alone.

B. The Courts Below Found The Facts Correctly And Correctly Applied The Law.

Wholly apart from the defectiveness of the petition as raising factual questions, the courts below correctly decided this case adversely to petitioners.

The fundamental premise of the petition,

tirelessly reiterated throughout its text, is that "Lalos had a preexisting fiduciary duty to Audi" (Petition, p. 11). How Petitioners can even advance that unfounded position remains an total mystery in light of Lalos' own testimony in the District Court:

> "I don't have to ask Audi whether I want to represent another client. I'm under no obligation to Audi. I may have done it as a courtesy, but I was under no obligation to Audi not to take another case involving another automotive company."

Lalos also admitted that the very purpose of his investigation -- his discussions with Kearns and with Kearns' former counsel -- was to enable him to determine whether he "might be willing" to take Kearns' case. Said Lalos:

> "Now in that context I said to [Kearns] 'Well, I'd like to see something more. I'd like to see some of the pleadings in the case, and also, perhaps, I'd like to talk to [Kearns' former counsel] to get an overview of what the case is all about".

Plainly, Lalos had no business looking into "what the case is all about" if he, as the petition insists, had a "preexisting fiduciary duty" to Audi.

In sum, the testimony of Lalos himself certifies that even the factual questions raised by the petition are totally lacking in substance.

Wholly aside from Lalos' devastating admissions, the record here reveals an unmistakable "appearance of impropriety"; Lalos, the record proves, pleaded as defenses on Audi's behalf the very facts he had discussed with Kearns and his former lawyer.

When it is remembered that those facts were undisputed in the courts below, there can be no doubt that Lalos' representation of Audi in this case raises the "appearance of the possibility" that Lalos received confi-

dential information during his consultation with Kearns. On such facts, disqualification is mandatory (Trone v. Smith (9 Cir., 1980), 621 F.2d 994, 999).

CONCLUSION

This case was correctly decided, with no novel or disputed points of law involved. The petition for certiorari should be denied.

Respectfully submitted,

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